

Message Text

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DRAFTED BY L/ARA:DAGANTZ

APPROVED BY ARA:AFISHLOW

L:MONROE LEIGH (INFO)

S/P:LEINAUDI (INFO)

CIEP:WSHARPE (INFO)

COMMERCE:DARRILL (INFO)

TREASURY:FMARESCA

TREASURY:JBUSHNELL (INFO)

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TO AMEMBASSY LIMA IMMEDIATE

C O N F I D E N T I A L STATE 057033

E.O. 11652: GDS

TAGS: EIND, EINV, BDIS, EMIN, PFOR, PE

SUBJECT: MARCONA NEGOTIATIONS - WEDNESDAY, MARCH 3

-- WRAP-UP

1. SUMMARY: WHILE NO MEETINGS HAD BEEN SCHEDULED AFTER TUESDAY'S ACTIVITIES, DE LA PUENTE CALLED LATE MORNING OF MARCH 3 TO REQUEST TWO MEETINGS, COMMISSION AT 3:30, AND MEETING WITH PRIME MINISTER AT 6:30. DE LA PUENTE STRONGLY PRESSED FISHLOW TO MAKE US COUNTERPROPOSAL AT 3:30 MEETING; FISHLOW DEMURRED. HOWEVER, HE AGREED TO MAKE A PRESENTATION WHICH WOULD SHOW VARIOUS MEANS BY WHICH PERUVIANS, WITHIN SCOPE OF THEIR OWN LAW AND PROCEDURES, COULD WITH RELATIVE EASE RAISE BOOK VALUE TO MORE THAN \$30 MILLION. THAT PRESENTATION OCCUPIED VIRTUALLY ALL OF COMMISSION

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MEETING WHERE DE LA PUENTE AGAIN PRESSED FOR USG COUNTER-

OFFER. MEETING WITH MINISTERS (INCLUDING PRIME MINISTER, FOREIGN MINISTER AND MINISTERS OF COMMERCE, TRANSPORTATION, AND MINING) BEGAN AT 6:45 P.M. AT PRIME MINISTER'S OFFICE AND ENDED AT 12:30 A.M. AT COMMERCE MINISTER ARIAS' HOME. SESSION INVOLVED 6-HOUR UNSUCCESSFUL ONSLAUGHT ON US POSITION TO THE EFFECT THAT NO NEW COUNTEROFFER COULD BE PRESENTED ON BEHALF OF MARCONA UNTIL GOP "GOT INTO THE GAME" BY MAKING FIRM \$30 MILLION OFFER. WIDE-RANGING DISCUSSION TOUCHING UPON PERUVIAN-US BILATERAL RELATIONS, US

EXPROPRIATION POLICY, MARCONA'S ALLEGED EVILS, AND SIMILAR ISSUES (SOME RELATED, SOME NOT) DEMONSTRATED RIGIDITY OF US POSITION AS WELL AS FACT THAT GOP WAS NOT ONLY POLITICALLY PREPARED TO GO TO \$30 MILLION, BUT HAD SOME FLEXIBILITY BEYOND THAT DESPITE FACT THAT THEY WERE AT THE TIME UNPREPARED TO MAKE A COMMITMENT WITHOUT KNOWING MORE ABOUT US POSITION. END SUMMARY.

2. IN COURSE OF ONE-AND-A-HALF-HOUR PRESENTATION BEFORE FULL GOP COMMISSION, FISHLOW INDICATED VARIETY OF MEASURES FULLY CONSISTENT WITH PERUVIAN LAW THAT COULD BE USED TO AUGMENT PRESENT \$9.2 MILLION BOOK VALUE TO MORE THAN \$30 MILLION. THE ELEMENTS OF THE APPROXIMATELY \$23.6 MILLION INCREMENT WERE AS FOLLOWS: (A) RECOGNITION THAT EX-IM BANK DEBT OF \$4.6 MILLION HAD BEEN PAID BY MARCONA HOME OFFICE; (B) USE OF PERUVIAN DOLLAR BOOK ACCOUNTS (RATHER THAN SOLE ACCOUNTS) TO SET VALUE OF INITIAL INVESTMENT, RESULTING IN AN INCREASE OF \$4.8 MILLION (FROM \$27.2 MILLION TO \$32 MILLION); (C) INFLATION ADJUSTMENT FROM DECEMBER 31, 1974 THROUGH JULY 31, 1975, AN INCREASE OF \$4.5 MILLION (BASED ON A 25 ANNUAL RATE); (D) VALUATION OF EXISTING ORE INVENTORIES AT CURRENT SPOT PRICES AS PERMITTED UNDER PERUVIAN DECREE LAW, RATHER THAN AT COST, RESULTING IN AN INCREASE OF \$2.3 MILLION; AND (E) REDUCTION OF THE LIABILITY ACCOUNT FOR TAXES AND ROYALTIES FROM ABOUT \$11 MILLION TO ABOUT \$7.4 MILLION. (THE \$3.6 MILLION WOULD INCLUDE \$1.6 MILLION AS THE REDUCED AMOUNT OF THE 4 ALLOWANCE CLAIM, WITH ROYALTIES AND OTHER MINOR TAX CLAIMS BEING SET AT \$2 MILLION.) FISHLOW ALSO POINTED OUT THAT SUBSTANTIAL INVENTORIES OF LOWER GRADE ORE WHICH

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ARE NOT PRESENTLY ECONOMICALLY FEASIBLE TO PROCESS WILL PROBABLY HAVE ECONOMIC VALUE AT SOME TIME IN THE FUTURE. WHILE SUCH ORE IS NOT PROPERLY INCLUDED IN TANGIBLE ASSETS OF A GOING CONCERN, IT IS PROPERLY INCLUDE-ABLE UPON LIQUIDATION. THESE DEPOSITS COULD BE WORTH UP TO \$10 MILLION, ALTHOUGH FISHLOW CONCEDED THAT THE QUESTION OF THEIR VALUE WAS DEBATABLE.

3. PERUVIAN COMMISSION BROKE FOR A FEW MINUTES TO DISCUSS FISHLOW'S PROPOSALS; UPON ITS RETURN IT DEDUCTED ONLY THAT IT FOUND MANY OF THEM INTERESTING AND WOULD HAVE THEM STUDIED BY THE TECHNICAL EXPERTS. AFTER ONE LAST PUSH (READ PLEA) FOR A FINAL STATEMENT BY FISHLOW TO THE EFFECT THAT (A) THIS PRESENTATION WAS NOT A COUNTEROFFER, (B) IT WAS DONE FULLY WITHIN PERUVIAN LAW AND REGULATIONS, AND (C) RATHER THAN SHOW ALL POSSIBLE CHANGES IN PERUVIAN BOOK VALUE FIGURES, HE HAD STOPPED WHEN HE GOT TO \$30 MILLION, THE MEETING ADJOURNED.

4. THE EVENING ODYSSEY BEGAN WITH A ONE-AND-A-HALF-HOUR SESSION IN THE PRIME MINISTER'S OFFICE. FOREIGN MINISTER DE LA FLOR PREDICTABLY DID MOST OF THE TALKING, BUT WAS ASSISTED BY THE OTHERS PRESENT, ESPECIALLY COMMERCE MINISTER ARIAS. GOP'S BASIC THRUST WAS THAT WE COULD NOT EXPECT THEM TO MAKE A FIRM \$ 30 MILLION OFFER UNTIL THEY KNEW WHERE THEY WERE GOING; HENCE, USG COUNTEROFFER FIRST WAS ESSENTIAL. FISHLOW EXPOUNDED ALONG THE SAME LINES AS EARLIER, STRESSING THE FACT THAT THE USG WAS ACTING ESSENTIALLY AS AN INTERMEDIARY WITH THE CORPORATION; AS WE WERE NOT PREPARED TO MAKE A COUNTEROFFER OF OUR OWN, OUR ROLE WAS SIMPLY TO ENCOURAGE MARCONA TO SHOW THE FLEXIBILITY WE BELIEVED POSSIBLE. HOWEVER, THERE WAS NO HOPE OF ENCOURAGING MARCONA TO AUTHORIZE US TO MAKE A COUNTEROFFER ON THEIR BEHALF UNTIL THE PERUVIANS GOT THEMSELVES INTO THE GAME BY MAKING A SERIOUS OFFER. THE \$9.2 MILLION BOOK VALUE FIGURE PRESENTLY ON THE TABLE, HE SAID, IS SO VERY FAR FROM WHERE WE ARE GOING THAT IT WILL NOT PERMIT US TO SEEK FLEXIBILITY ON MARCONA'S PART. PERUVIAN-US RELATIONS, AND THE RELATIVE IMPORTANCE OF THE MARCONA PROBLEM TO PERU AND THE UNITED STATES, THE DISTANCE WHICH PERU HAD GONE ALREADY (FROM MINUS \$150
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MILLION TO PLUS \$16 MILLION INCLUDING THE FREIGHT CONTRACT), AND THE ALMOST UNCONTROLLABLE CURIOSITY OF THE MINISTERS TO KNOW "OUR FIGURE" WERE REPEATED AD NAUSEAM. NO NEW GROUND WAS BROKEN, ALTHOUGH IT BECAME OBVIOUS THAT THE TRANSPORTATION AND MINES MINISTERS, NEITHER OF WHOM HAD BEEN PRESENT AT THE TIME OF THE EXPROPRIATION, WERE SOMEWHAT MORE SKEPTICAL THAN THE OTHERS ABOUT ACCEPTING ANY RESPONSIBILITY ON THE GOP'S PART TO RESOLVE A PROBLEM WHICH THEY THEMSELVES HAVE CREATED. ONCE EVERYONE'S POSITION HAD BEEN CLEARLY STATED SEVERAL TIMES, AND IT BECAME OBVIOUS THAT THE US GROUP WAS NOT ABOUT TO BUDGE, COMMERCE MINISTER ARIAS SUGGESTED THAT THE GROUP PASS TO HIS HOME FOR DRINKS AND BOCAS.

5. THE GROUP RECONVENED AT ARIAS' PLEASANT SUBURBAN

HOME AN HOUR LATER TO CONTINUE WHAT WAS IN ESSENCE THE SAME DISCUSSION WITH THE SAME OBJECTIVES ON BOTH SIDES. WHILE THE PERSONAL RELATIONSHIPS REMAINED CORDIAL AND FRANK, THE LEVEL OF FRUSTRATION AMONG THE PERUVIANS, ESPECIALLY THE NEWER MEMBERS OF THE GROUP, APPEARED TO INCREASE. THE NEW MINES MINISTER, FOR EXAMPLE, PUSHED MORE INTENSIVELY THAN MOST FOR THE "USG NUMBER," AND STRONGLY CRITICIZED MARCONA'S PAST ACTIVITIES. COMMERCE MINISTER ARIAS, WHO HAS BEEN SERIOUSLY STUNG BY THE DELAY IN OBTAINING CCC CREDITS, COMPLAINED OF DIFFICULTIES IN

DEALING WITH MARCONA OVER THE APPLICATION OF THE TRANSPORTATION CONTRACT. DE LA FLOR REFERRED AGAIN TO THE GOALS OF THE REVOLUTION AND HOW UNPLEASED HE WAS WITH OUR EFFORTS TO MAKE A BIG DEAL OUT OF WHAT IN HIS VIEW SHOULD NOT BE A SIGNIFICANT MATTER FOR THE UNITED STATES. THE PRIME MINISTER, WITH THE EXCEPTION OF RELATIVELY BRIEF COMMENTS, SPENT MOST OF HIS TIME LISTENING TO THE INTERCHANGE. EFFORTS WERE MADE BY SEVERAL MINISTERS, HOWEVER, TO MAKE IT CLEAR THAT \$30 MILLION WAS NOT THE FINAL FIGURE; THERE WAS SOME FLEXIBILITY ALBEIT VERY LIMITED BEYOND THAT, BUT THE MINISTERS WERE NOT PREPARED TO COMMIT THEMSELVES TO \$30 MILLION UNTIL THEY HAD SOME BETTER FEELING FOR WHERE THE NEGOTIATION MIGHT END. BY MIDNIGHT IT BECAME CLEAR THAT THE US GROUP WAS NOT GOING TO YIELD. FISHLOW HAD EARLIER SUGGESTED THAT UNDER THE CONFIDENTIAL

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CIRCUMSTANCES THERE WAS NO POINT IN THE US GROUP REMAINING BEYOND THE NEXT MORNING, BUT AT THE PLEA OF THE MINISTERS HE AGREED TO REMAIN IN TOWN ON THURSDAY SO AS TO HEAR THE DECISION OF THE MINISTERS VIA THE COMMISSION. KISSINGER

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